

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 96-137-W/S - ORDER NO. 96-879
DECEMBER 23, 1996

IN RE:	Application of Tega Cay Water)	ORDER DENYING
	Service, Inc. for Approval of)	INCREASE
	an Increase in Rates and Charges)	IN RATES
	for Water and Sewer Service.)	AND CHARGES

I.
INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the "Commission") on the Application of Tega Cay Water Service, Inc. ("TCWS" or the "Company") filed June 27, 1996. In its Application, TCWS requested approval of a new schedule of rates and charges for water and wastewater ("sewer") service provided to its customers in its service area in South Carolina. The Application was filed pursuant to S.C. Code Ann. §58-5-240 (Supp. 1995) and 26 S.C. Regs. 103-821 (1976).

By letter dated July 22, 1996, the Commission's Executive Director instructed TCWS to publish a prepared Notice of Filing, once, in newspapers of general circulation in the area affected by the Application. The Executive Director also directed the Company to furnish, by U.S. Mail, a copy of the Notice of Filing to each customer. The Company complied with the instructions of the Executive Director and supplied an Affidavit of Publication and a

Certificate of Service as proof of compliance. The Notice of Filing indicated the nature of the Company's Application and advised all interested persons desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings for participation in the proceeding. Petitions to Intervene were filed by the Consumer Advocate for the State of South Carolina (the "Consumer Advocate"); Douglas Christensen; and The City of Tega Cay (the "City").

The Company's presently authorized rates and charges were approved by Commission Order No. 93-766 dated August 27, 1993, in Docket No. 92-638-W/S. According to the Company's Application, the requested rates would increase water revenue by \$109,940 and sewer service revenue by \$121,582.

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The Consumer Advocate and the City also conducted discovery in the rate filing of TCWS.

On October 16, 1996, the Commission held a public night hearing at the Tega Cay Country Club in Tega Cay, South Carolina. The purpose of the night hearing was to allow customers of TCWS to present their views to the Commission regarding the Company's Application.

On October 24, 1996, at 10:30 a.m., the Commission convened a public hearing in the Commission's hearing room at 111 Doctors Circle in Columbia, South Carolina. Pursuant to S.C. Code Ann. §58-3-95 (Supp. 1995), a panel of three (3) Commission members was

designated to hear and rule on this matter. The panel was composed of Commissioner Cecil A. Bowers, presiding; Commissioner Warren D. Arthur, IV; and Commissioner Philip T. Bradley. Robert T. Bockman, Esquire, represented the Company; Elliott F. Elam, Jr., Esquire, represented the Consumer Advocate; Steve Matthews, Esquire, and Joe Clark, Esquire, represented the City; and Florence P. Belser, Staff Counsel, and Catherine D. Taylor, Staff Counsel, represented the Staff. The Intervenor Douglas Christensen did not appear.

The Company presented the testimony of Carl Daniel, Regional Vice President for several operating subsidiaries of Utilities, Inc., the parent company of TCWS; and Patricia M. Cuddie, Manager of Regulatory Accounting for Utilities, Inc. and its subsidiaries including TCWS. The Consumer Advocate presented the testimony of Michael A. Bleiweis of The Woodside Group, a financial and management consulting firm. The City presented the testimony of Stephen M. Hamilton, Mayor of the City of Tega Cay. The Commission Staff presented the testimony of I. Curtis Price, Public Utilities Accountant, and Charles A. Creech of the Commission's Utilities Department, to report Staff's findings and recommendations. Eleven witnesses, including four public officials, appeared to testify at the night hearing.

II. FINDINGS OF FACT

Based upon the Application, the testimony and exhibits received into evidence at the hearing, and the entire record of these proceedings, the Commission now makes the following findings

of fact:

1. TCWS is a water and sewer utility providing water and sewer service in its service areas within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. §58-5-10 et seq. (1976), as amended.

2. The appropriate test period for the purposes of this proceeding is the twelve month period ending December 31, 1995.

3. According to the Company's Application, the Company is seeking an increase of its rates and charges for water operations of \$109,940 and an increase of its rates and charges for sewer operations of \$121,582 for a combined increase of \$231,523.

4. The appropriate operating revenues, as adjusted herein, for the Company for the test year under its presently approved rates are \$683,160.

5. The appropriate, as adjusted, operating expenses, which include interest expense of \$110,958 and income tax of \$953, for the Company's South Carolina operations for the test year under its present rates are \$681,559.

6. The Commission has determined that the appropriate total income for return for the computation of operating margin is \$1,601.

7. The Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates.

8. A fair operating margin that the Company should have the opportunity to earn is 0.23% which is produced by the appropriate

level of revenues and expenses found reasonable and approved herein.

9. The rate designs and rate schedules approved by the Commission as described herein are appropriate and should be adopted.

10. The rates and charges depicted in Appendix A, attached hereto and incorporated by reference, are approved and effective for service rendered on and after the date of this Order.

III. EVIDENCE AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1.

The evidence supporting this finding concerning the Company's business and legal status is contained in the Company's Application and in prior Commission Orders in the docket files of which the Commission takes judicial notice. The Company is a water and sewer utility under S.C. Code Ann. §58-5-10 and is providing water and sewer service in its approved service area in York County, South Carolina. The Company's operations are subject to the jurisdiction of this Commission. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 2.

The evidence for this finding concerning the appropriate test period is contained in the Company's Application and in the testimony and exhibits of the Company witnesses, the witness for the Consumer Advocate, and the Staff's witnesses. The Company

proposed in its Application that the appropriate test year by which to consider the requested rate increase was the twelve month period ending December 31, 1995, and based the filing on that time period. Relying on the Company's proposed test year, the Staff and the witness for the Consumer Advocate utilized the same test period for their accounting and pro forma adjustments.

A fundamental principle of the ratemaking process is the establishment of a historical test year period. While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any know and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See, Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E. 2d 290 (1984), citing City of Pittsburgh v. Pennsylvania Public Utility Commission, 187 P.A. Super. 341, 144 A.2d 648 (1958); Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E.2d 278 (1978). Based on the record, the Commission finds the twelve month period ending December 31, 1995, to be the reasonable and appropriate period for which to make its ratemaking determinations herein.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3.

The evidence for this finding concerning the requested amount of increase is found in the Company's Application and in the Staff's Report - Utilities Department, Exhibit B (Hearing Exhibit No. 5). According to the Company's Application, the proposed rates will increase water revenues by \$109,940 and sewer revenues

by \$121,582 for a combined increase of \$231,523. Hearing Exhibit No. 5, which is the portion of the Staff Report submitted by the Utilities Department, contains Exhibit B which shows the requested rates will increase water revenues by \$107,767 and sewer revenues by \$119,977 for a combined increase of \$227,744. Staff calculated the proposed revenues using actual billing units based on test year consumption; the Company calculated the proposed revenues using end of test year customers.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4.

The Company's Application showed as adjusted revenues in the amount of \$677,141 for the test year. The Consumer Advocate calculated revenues for the test year to be \$683,160. Staff proposed an adjustment of \$313,449 to revenues to reflect the amounts collected for purchased water from York County and showed test year revenues to be \$992,423.¹

Based on the record, the Commission concludes that the Consumer Advocate's adjustments to the Company's revenues are appropriate for the purposes of this Order. The Consumer Advocate calculated a customer growth adjustment which is based upon the change in billing units as applied to revenues per billing unit. The Company and the Staff calculated customer growth by multiplying the percentage change in billing units between the end

1. The Company purchases bulk water from York County and sells it to the customers for the same price; the Company is therefore allowed to "pass-through" the cost of water to the customers. The Commission approved the implementation of the "pass-through" mechanism in Order No. 93-602 (July 23, 1993) in Docket No. 92-638-W/S, and by Order No. 93-1121 (December 13, 1993) in Docket No. 93-560-W, the Commission approved a Water Supply Agreement between the Company and York County for the purchase of bulk water.

of the test year and the average test year by pro forma net operating income at both present and proposed rates. The Commission adopts the method for calculating customer growth that is proposed by the Consumer Advocate. The Consumer Advocate's method takes into account that revenues vary directly with the number of customers but does not assume that expenses vary directly with the number of customers. The method used by the Company and the Staff assumes that net income varies proportionally with the number of customers and necessarily assumes that expenses will increase proportionally as will the revenues.

Mayor Hamilton of the City testified that he believed that the Company's projections for future growth in the system were "unrealistically low." Mayor Hamilton testified that Tega Cay is one of the fastest growing areas in South Carolina.

For this proceeding, the Commission believes that the method proposed by the Consumer Advocate is the better method by which to calculate customer growth. The Commission recognizes that the customer growth adjustment proposed by the Consumer Advocate is more "aggressive" than the adjustment utilized by the Company and by Staff. Based on the testimony from Mayor Hamilton concerning the growth of Tega Cay, the Commission believes that the Consumer Advocate's more aggressive customer growth adjustment is appropriate for this proceeding. Further, the Commission recognizes that while revenues will vary directly or proportionally with the number of customers, expenses may not vary directly with the number of customers. Therefore, the Commission

accepts the Consumer Advocate's customer growth calculation as reasonable and appropriate for this case.

Staff proposed to include the amounts collected from the "pass-through" of purchased water as revenue. The Company recorded the amounts collected from the "pass-through" in an expense account. According to the testimony of Staff witness Price, the Company recorded all charges to customers as credits in a Company account entitled "purchased water," which is an operating and maintenance (O&M) expense account. Payments to York County for purchased water were recorded as debits in this account. Staff recommended that the Commission require the Company to book the "pass-through" amount from the sale of purchased water to the customers in an operating revenue account and that the cost of purchased water continue to be recorded as an operating expense in an expense account.

The Commission adopts Staff's recommendation concerning the "booking" of revenues to a revenue account. The Commission agrees with Staff that "booking" the revenues to a revenue account and the payments to York County in the expense account will conform with the NARUC Uniform System of Accounts for Water Utilities. The Commission orders the Company to book the "pass-through" amount from the sale of purchased water in an operating revenue account on a going forward basis. However, the Commission does not adopt Staff's proposed adjustment of \$313,449 for this proceeding. Staff witness Price testified that a credit balance was found in the "pass-through" account, but Mr. Price also testified that he believed that the Company did not intend to

profit from the "pass-through." Company witness Cuddie testified that Staff's adjustment was overstated due to accruals in the purchased water account, producing a mismatch. The Commission agrees that the Company did not profit from the "pass-through." Further, the Commission accepts the Company's explanation concerning the accruals. The Commission also believes that implementation of Staff's recommendation regarding the "booking" of the pass-through amount to a revenue account will help alleviate the confusion regarding the "pass-through" amount which existed in this case. Therefore, the Commission does not accept Staff's revenue adjustment in this proceeding but will order the new booking procedures on a going forward basis.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5.

For the reasons set forth below, the Commission approves the following accounting and pro forma adjustments proposed by the Consumer Advocate. All recommendations and adjustments not specifically discussed herein or that are inconsistent with the accounting and pro forma adjustments proposed by the Consumer Advocate are denied.

(a) Salaries & Wages - The Consumer Advocate proposed to reduce "Salaries & Wages Expense" by \$2,128. The Consumer Advocate stated that the salaries & wages had been annualized as of April 23, 1996 which is almost four months after the end of the test year. Mr. Bleiweis testified that it is normal ratemaking practice for the major elements of the ratemaking formula to be synchronized as of the same date and that if those elements are not in synch an unfair return to the company could result. Mr.

Bleiweis further stated that the Company presented a post-test year adjustment to expenses without an annualization of revenues at the same date. According to the Consumer Advocate's witness, this "mismatch" is unfair to the ratepayers who support the Company through rates. The Consumer Advocate's adjustment recalculated pro forma salaries & wages at December 31, 1995, which is the end of the test year.

Upon consideration of this issue, the Commission accepts the Consumer Advocate's position. As the witness for the Consumer Advocate stated, the Company chose the test year and could have easily utilized a test year that would have incorporated the April wage figures and negated the necessity for a post-test year adjustment. The Commission agrees that a mismatch between expenses and revenues has occurred and approves the adjustment proposed by the Consumer Advocate to correct that mismatch.

(b) Expense Variances - The Consumer Advocate proposed a downward adjustment of \$8,630 to "Operation & Maintenance" ("O&M") expense for expense variances in the Company's accounts relating to sewer maintenance supplies, sewer maintenance repairs, and sewer rodding. Mr. Bleiweis stated that he prepared a comparison of O&M expenses over a three year period to determine if any abnormal expenditures are present in the test year. Mr. Bleiweis testified that through responses to Interrogatories the Company explained the increases in expenses based upon "more problems" and an "increase in sewer backups." (Hearing Exhibit No. 10, CA Interrogatory 2-7.) Mr. Bleiweis offers that the responses themselves indicate that the test year expenses were abnormal and

should therefore be normalized. The Company offered that these expenses were representative of ongoing expenses due to the age of the collection system and are also incurred in the Company's preventative maintenance program.

Upon consideration of this issue, the Commission adopts the Consumer Advocate's adjustment. Looking at the Company's responses to the Consumer Advocate's interrogatories and the reasons offered by the Company, the Commission does not believe that the Company has adequately shown that these expenses are representative of ongoing or normal expenses and not abnormal to the test year. The Commission believes that the three-year average of these expenses as proposed by the Consumer Advocate in "normalizing" these expenses is appropriate and reasonable based on the record.

(c) **Deferred Charges** - The Consumer Advocate proposed a downward adjustment totaling \$3979 for deferred charges. Of that amount, the Consumer Advocate recommended that \$3,808 be removed from the Company's filing because the Company had not requested prior Commission approval to defer the expenditures. The Consumer Advocate argues that only expenses that are "extraordinary" should be considered for amortization. The Consumer Advocate witness testified that most of the deferred expenses related to tank maintenance which the Consumer Advocate asserts are normal, recurring expenses.

The Consumer Advocate also asserts that obtaining Commission approval to defer an extraordinary expense is not the time-consuming and expensive proceeding that the Company asserts

would result from requesting prior approval from the Commission. On cross-examination of the Staff, the Consumer Advocate elicited testimony that revealed that obtaining approval to defer an extraordinary expense requires a letter to the Executive Director of the Commission which describes the expenditure and requests deferred accounting treatment. After review by the Staff, the Commission is informed of the request, and then the Commission rules on the request.

The Consumer Advocate also asserts that two amortizations (included in the downward adjustment of \$3979 stated above) for "Tank Maint (w)-1" for \$177 and "Tank Maint (s)-1" for \$171 should be disallowed as those amortizations are ending in 1996 and therefore should not be recognized for ratemaking purposes since they are nonrecurring.

Upon consideration of this issue regarding deferred charges, the Commission accepts the proposed adjustment of the Consumer Advocate. The Commission agrees that the expenses claimed by the Company as "extraordinary" appear to be normal maintenance expenses and should not be treated as deferred charges. The Commission also agrees that the deferrals which amortizations are ending in 1996 should not be recognized for ratemaking purposes. The Commission therefore approves the Consumer Advocate's downward adjustment of \$3979 for deferred charges.

(d) Income Taxes - In its Application, the Company calculated pro forma state income tax expense at 5.50%. The Consumer Advocate proposed an adjustment to recalculate state income tax expense at the statutory rate of 5.0%. The Staff

proposed an adjustment similar to the adjustment proposed by the Consumer Advocate.

The Commission adopts the adjustment proposed by the Consumer Advocate. Mr. Bleiweis testified that the statutory rate of state income taxes (for corporations) is 5.0%. The Commission concludes that the Company should not be allowed to calculate its state income tax, for purposes of this proceeding, at a higher rate than the Company will be taxed. Therefore, the Commission accepts the Consumer Advocate's upward adjustment of \$2,446.

(e) **Wells** - The Consumer Advocate proposed removal of the water supply wells from plant, or rate base, and a related expense account. The Staff proposed the removal from revenue requirements of expenses associated with the Company's wells and also the removal of the wells from the rate base on the books. The City supported the removal of the wells from the books. The record establishes that the Company purchases all of its water from York County and that the wells are maintained as "back-up." As the wells are not used in the provision of water, both the Consumer Advocate and the Staff based their adjustments on the theory that the wells do not meet the ratemaking standard of being "used and useful." The Company asserts that the wells are maintained as "back-up" pursuant to the agreement between the Company and York County under which the Company purchases the bulk water supply and which the Company notes was approved by the Commission. The Company further asserts that the availability of the wells benefits the customers should the County be unable to meet the water demand of the customers.

The Consumer Advocate introduced interrogatories which indicated that no water was produced from the wells during the test year. (Hearing Exhibit No. 10, CA Interrogatory 1-52.) Further testimony of record established that the York County system is connected with the Charlotte-Mecklenburg Utility Department ("CMUD") for reserve should an emergency situation arise. The Commission also notes that while the Company submitted the contract with York County to the Commission for approval, the Company did not request specific accounting or ratemaking treatment regarding that contract and the provisions it contained, nor did Commission approval of the contract specify any accounting or ratemaking treatment. Based on the evidence presented, the Commission concludes that maintaining the wells as "back-up" does not meet the "used and useful" standard for inclusion in the setting of rates. Therefore, the Commission approves the Consumer Advocate's adjustment to remove the wells from the rate base, or books, and his associated adjustment to interest synchronization.

(f) Allocations - The Consumer Advocate proposed a downward adjustment of \$25,493 for non-salary allocated general expenses. A large amount of expenses listed on the Company's schedules in this case have been allocated by the Company's parent company or by other sister companies. The witness for the Consumer Advocate stated that the Company did not provide any support for these allocations. The Consumer Advocate asserts that it is important that the ratepayers of the Company only pay for expenses that directly benefit the operation of the utility that provides service to them. Mr. Bleiweis testified that he was concerned

about allocations concerning, among other items, computer costs, insurance, and common expenses such as legal fees, audit fees, director fees, office cleaning service, landscaping and mowing, and office garbage removal.

The Company offers by way of explanation that numerous functions for the Company and its affiliated sister and parent companies are centralized to offer the benefit of economies of scale to the customers. Further, the Company submits that the expenses from which the Consumer Advocate takes exception were incurred for services or functions which benefited the customers and are therefore proper for ratemaking purposes.

Upon careful consideration of the issue, the Commission concludes that the Adjustment of the Consumer Advocate should be adopted for this proceeding. It is the belief of the Commission that the Consumer Advocate's argument has merit. The Company did not offer any sound evidence to the satisfaction of the Commission that any of the allocated expenses benefited the Company's ratepayers, either directly or indirectly. While the Company alleges that the allocations arose from economies of scale to the benefit of its ratepayers, the Company did not provide evidence that the ratepayers of TCWS benefited from those economies of scale.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6.

Based on the accounting and pro forma adjustments herein approved, the Company's appropriate total income for return for the computation of an appropriate operating margin is \$1,601. The calculation of total income for return is shown in Table A:

TABLE A
TOTAL INCOME FOR RETURN - AS ADJUSTED

Operating Revenues	\$ 677,141
Customer Growth	6,019
Adjusted Operating Revenues	\$ 683,160
Operating Expenses	681,559
Total Income for Return	<u>\$ 1,601</u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 7 AND 8.

Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas, 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in the Hope Natural Gas decision, supra, the utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and ... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

Neither S.C. Code Ann. §58-5-240 (Supp. 1995) nor any other statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a public

utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues, and investment in a historic test period because such examination provides a constant and reliable factor upon which calculation can be made to formulate the basis for determining just and reasonable rates. This method was recognized and approved by the South Carolina Supreme Court for ratemaking purposes involving utilities in Southern Bell Telephone and Telegraph Co. v. The Public Service Commission of S.C., 270 S.C. 590, 244 S.E. 2d 278 (1978).

For water and sewer utilities, where the utility's rate base has been substantially reduced by customer donations, tap fees, and contributions in aid of construction, the Commission may decide to use the "operating margin" as a guide in determining just and reasonable rates, instead of examining the utility's return on its rate base. The operating margin is determined by dividing total income for return (or net operating income) by the operating revenues of the utility.

The Commission finds that its use of the operating margin has resulted in fair rates to both the utility and the ratepayer. In this proceeding, the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E. 2d 257 (1984).

The following Table indicates the Company's gross revenues for the test year under the presently approved rate schedules; the

Company's operation expenses for the test year; and the operating margin under the presently approved schedules for the test year:

TABLE B
OPERATING MARGIN - AS ADJUSTED

Operating Revenues	\$ 677,141
Customer Growth	6,019
Adjusted Operating Revenues	\$ <u>683,160</u>
Operating Expenses	681,559
Total Income for Return	\$ <u>1,601</u>
Operating Margin (After Interest)	<u>0.23 %</u>

The Commission is mindful of those standards delineated in the Bluefield decision, supra, and of the balance between the respective interests of the Company and of the consumer. The Commission has considered the spectrum of relevant factors in this proceeding, including among others: the revenue requirements for the Company, the price for which the Company's service is rendered as well as the proposed price, the quality of that service, and the effect of the proposed price upon the consumer.

The three fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

The Commission has considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. The Commission has also considered the impact of the proposed increase on the ratepayers of the Company. The Commission must balance the interests of the Company -- the opportunity to make a profit or earn a return on its investment, while providing adequate water service -- with the competing interests of the ratepayers -- to receive adequate service at a fair and reasonable rate. In balancing these competing interests, the Commission has determined that the proposed schedule of rates and charges is unjust and unreasonable and inappropriate for both the Company and its ratepayers.

We think that the case of Seabrook Island Property Owners Association v. South Carolina Public Service Commission, et al., 303 S.C. 493, 401 S.E. 2d 672 (1991) must be strongly considered in the case at bar. That case indicates that during the process of approving rates which are just and reasonable, the Commission must consider the price at which the Company's services are rendered and the quality of that service.

The record reveals that Mayor Hamilton questioned the quality of service provided by the Company and testified that he had personally seen unacceptable water drawn from residences in Tega Cay since the Company began purchasing water from York County. Mary Lewis, a member of Tega Cay City Council, questioned the maintenance of lines and fire hydrants and the responsiveness of the Company to repairs. Ms. Lewis also testified that the

companies with the highest rates in South Carolina are all owned by Utilities, Inc. Bruce Updike testified that he has seen a pronounced degradation of water quality and stated that he had observed a pink tint and pink rings left by the water. Kitty Updike testified that the quality of service provided by the Company is not good. Stan Graves testified that the water quality is inconsistent in clarity and taste. Stewart Gamble testified that the water is not clean.

Several of the public witnesses also complained about the price they pay for water and sewer service. The average monthly bill for water and sewer service based on average monthly residential consumption of 6,381 gallons under the present rates is \$57.42; the same usage under the Company's proposed rate schedule produces a bill of \$70.69, for a percentage of increase on water and sewer service combined of 23.11%. (Hearing Exhibit No. 5, Exhibit C, p. 16.) The Commission takes judicial notice of the rates charged by the various water and sewer companies operating under its jurisdiction and notes that the Company's water rates are second highest in the state and that the company's sewer rates are fifth highest in the state. In reviewing the price of the service, the quality of the service, and the effect of the proposed increase on the customers, the Commission does not find that any increase is appropriate for this Company. The Commission believes that careful and prudent management will allow the Company to operate under its present rates and charges.

The Commission also notes that in Docket No. 96-232-W this Commission recently ordered a management audit of the Utilities,

Inc. subsidiaries operating in South Carolina. The Commission notes that economies of scale do not necessarily appear to be working for the Company and its sister and parent companies operating in South Carolina. The companies under Utilities, Inc. have some of the highest rates in the state. The Commission hopes that this management audit will identify areas of improvement for Utilities, Inc. and its subsidiaries, including the TCWS.

In light of those factors as previously discussed, and based upon the record in the instant proceeding, the Commission concludes that a fair operating margin that the Company should have an opportunity to earn is 0.23% which requires annual operating revenues of \$683,160. The following table reflects an operating margin of 0.23%:

TABLE C
OPERATING MARGIN - AS APPROVED

Operating Revenues	\$ 677,141
Customer Growth	<u>6,019</u>
Adjusted Operating Revenues	\$ 683,160
Operating Expenses	<u>681,559</u>
Total Income for Return	\$ 1,601
Operating Margin (After Interest)	<u>0.23 %</u>

The Commission finds that the present rate structure is appropriate based on the findings already discussed herein. This rate structure appears in Appendix A attached hereto. The Commission finds that the rates and charges approved herein achieve a balance between the interests of the Company and those of its customers. These rates and charges result in a reasonable

attainment of the Commission's ratemaking objectives in light of applicable statutory safeguards.

IT IS THEREFORE ORDERED THAT:


1. The proposed schedule of rates and charges as filed in the Company's Application is found to be unreasonable and is hereby denied.

2. The schedule of rates and charges attached hereto as Appendix A is hereby approved for service rendered on or after the date of this Order. The schedule is deemed filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (Supp. 1995).

3. The Company shall maintain its books and records in accordance with the NARUC Uniform System of Accounts, as adopted by this Commission, and further, the Company shall record the charges collected for the "pass-through" of bulk water as directed in this Order.

4. This Order shall remain in full force and effect until further Order of this Commission.

BY ORDER OF THE COMMISSION:



Chairman


ATTEST:



Deputy Executive Director
(SEAL)

STATEMENT OF COMMISSIONER ARTHUR (CONCURRING IN RESULT):

I serve on the Executive Committee of the National Nuclear Waste Strategy Coalition and was attending a very important meeting in Washington, D.C. on the date the panel voted on this case. I am very sorry that the vote could not be delayed one day until I returned from Washington, but had I been present, I would have voted with the rest of the panel in favor of this decision.



Warren D. Arthur, IV
Commissioner, Sixth District

APPENDIX A

TEGA CAY WATER SERVICE, INC.
5701 WEST PARK DR.
SUITE 101
PO BOX 240705
CHARLOTTE, N. C. 28224-0705
PHONE NO. 704-525-7990

FILED PURSUANT TO DOCKET NO. 96-137-W/S - ORDER NO. 96-879
EFFECTIVE DATE DECEMBER 23, 1996

SCHEDULE OF RATES AND CHARGES

I. WATER

1. MONTHLY CHARGES

- a. Basic Facility Charge \$6.00 per single - family
equivalent unit

PLUS

- b. Commodity Charge: \$2.40 per 1,000 gallons
(Usage)
- c. The basic facility charge is a minimum charge per unit and shall apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the monthly basic facility charge may be obtained by multiplying the equivalency rating by the basic facility charge of \$6.00.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter. Consumption of all units served through such meter will be averaged; a bill will be calculated based on that average plus the addition of the basic facility charge per unit and the result multiplied by the number of units served by a single meter.

2. CHARGE FOR WATER DISTRIBUTION ONLY

Where water is purchased from a government body or agency or other entity for distribution by the Company, the following rates apply:

Residential

- a. Basic Facility Charge \$6.00 per single - family
equivalent unit

PLUS

- b. Commodity Charge: \$1.18 per 1,000 gallons
(Usage)

The Utility will also charge for the cost of water supplied by the government body or agency, or other entity. The charges imposed or charged by the government body or agency, or other entity providing water will be charged to the Utility's affected customers on a pro rata basis without markup.

- c. The basic facility charge is a minimum charge per unit and shall apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the monthly basic facility charge may be obtained by multiplying the equivalency rating by the basic facility charge of \$6.00.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter. Consumption of all units served through such meter will be averaged; a bill will be calculated based on that average plus the addition of the basic facility charge per unit and the result multiplied by the number of units served by a single meter.

3. NON RECURRING CHARGES

- a. Tap fee (which includes a water service connection charge and capacity fee) \$600.00 per single - family equivalent unit ***

The non recurring charges listed above are minimum charges and apply even if the equivalency is less than one. If the equivalency rating is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for and/or initial connection to the water system is requested.

(***Unless prohibited by contract approved by South Carolina Public Service Commission.)

4. RECONNECTION AND ACCOUNT SET-UP CHARGES

- a. Water reconnection fee \$40.00
b. Customer account charges \$30.00
(One-time fee to be charged to each new account to defray cost of initiating service)

5. OTHER SERVICES

Fire Hydrant - One Hundred (\$100.00) per hydrant per year for water service payable in advance. Any water used should be metered and the commodity charge in Section One (1) or Two (2) above will apply to such usage.

II. SEWER

1. MONTHLY CHARGES

- a. Residential - Monthly Charge \$25.00
per single-family house,
condominium, villa, or
apartment unit
- b. Commercial - Monthly Charge \$25.00
per single-family equivalent
- c. The monthly charges listed above are minimum charges and shall apply even if the equivalency is less than one (1). If the equivalency is greater than one (1), then the monthly charges may be calculated by multiplying the equivalency rating by the monthly charge of \$25.00.

2. NON RECURRING CHARGES

- a. Tap fees (which includes sewer \$1,200.00 per single - family
service connection charges and equivalent unit ***
capacity charges)
- b. The non recurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. NOTIFICATION, ACCOUNT SET-UP AND RECONNECTION CHARGES

- a. Notification Fee: A fee of \$15.00 shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R.103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.
- b. Customer Account Charge: A fee of \$20.00 shall be charged as a one-time fee to defray the costs of initiating service. This charge will be waived if the customer is also a water customer.

- c. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of \$250.00 shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. The amount of the reconnection fee shall be in accordance with R.103-532.4 and shall be changed to conform with said rule, as the rule is amended from time to time.

III. GENERAL PROVISIONS

1. BILLING CYCLE

Recurring charges will be billed monthly or bi-monthly in arrears. Non recurring charges may be billed and collected in advance of service being provided.

2. LATE PAYMENT CHARGES

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 1/2%) for each month (or any part of a month) that said payment remains unpaid.

3. TAX MULTIPLIER

Except as otherwise provided by contract approved by the South Carolina Public Service Commission, amounts paid or transferred to the Utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the Utility by customers, builders, developers, or others, and properly classified as a contribution or advance in aid of construction in accordance with the uniform system of accounts. Included in this classification are tap fees.

4. TOXIC AND PRETREATMENT EFFLUENT GUIDELINES

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Health and Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR 403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

5. LANDLORD/TENANT RELATIONSHIP

In the case of landlord/tenant relationship where the tenant is the customer, the Utility may require the landlord to execute an agreement wherein such landlord agrees to be responsible for all charges billed to the premises in accordance with the approved tariffs and the Rules of the Commission, and said account shall be considered the landlord's and tenant's account. In the event the landlord refuses to execute such an agreement, the Utility may not discontinue service to the premises unless and until the tenant becomes delinquent on his account or until the premises are vacated. The Utility may discontinue service pursuant to R.103.535.1 if the account is delinquent or may discontinue service at the time the premises are vacated, and the Utility shall not be required to furnish service thereafter to the premises until the landlord has executed the agreement, and paid the reconnection charges.

6. CONSTRUCTION STANDARDS

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed in constructing parts of the water or sewer systems.

7. SINGLE FAMILY EQUIVALENT

The list set forth below establishes the minimum equivalency rating for commercial customers applying for or receiving sewer service from the Utility. Where the Utility has reason to suspect that a person or entity is exceeding design loading established by the South Carolina Pollution Control Authority in a publication called "Guidelines for Unit Contributory Loading to Wastewater Treatment Facilities" (1972), as may be amended from time to time or as may be set forth in any successor publication, the Utility shall have the right to request and receive water usage records from the provider of water to such person or entity. Also, the Utility shall have the right to conduct an "on premises" inspection of the customer's premises. If it is determined that the actual flows or loadings are greater than the design flows or loadings, then the Utility shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its service in accordance with such recalculated loading.

TYPE OF ESTABLISHMENT		EQUIVALENCY RATING
1.	Airport	
	(a) Each Employee.....	.025
	(b) Each Passenger.....	.0125
2.	Apartments.....	1.0
3.	Bars	
	(a) Each Employee.....	.025
	(b) Each Seat (Excluding Restaurant).....	.1
4.	Boarding House (Per Resident).....	.125
5.	Bowling Alley	
	(a) Per Lane (No Restaurant).....	.3125
	(b) Additional for Bars and Cocktail Lounges (Per Seat or Person).....	.0075
6.	Camps	
	(a) Resort (Luxury) (Per Person).....	.25
	(b) Summer (Per Person).....	.125
	(c) Day (With Central Bathhouse) (Per Person)	.0875
	(d) Per Travel Trailer Site.....	.4375
7.	Churches (Per Seat).....	.0075
8.	Clinics	
	(a) Per Staff.....	.0375
	(b) Per Patient.....	.0125
9.	Country Club (Each Member).....	.125
10.	Factories	
	(a) Each Employee (No Showers).....	.0625
	(b) Each Employee (With Showers).....	.0875
	(c) Each Employee (With Kitchen Facilities).	.1
11.	Fairgrounds (Per Person Based on Average Attendance).....	.0125
12.	Food Service Operations	
	(a) Ordinary Restaurant (Up to 12 Hours) (Per Seat).....	.175
	(b) Over 12 Hour Restaurant (Per Seat).....	.25
	(c) Curb Service (Drive in) (Per Seat).....	.25
	(d) Vending Machine Restaurant (Per Person).	.175
13.	Hospitals	
	(a) Per Bed.....	.5
	(b) Per Resident Staff.....	.25

14.	Hotels	(Per Bedroom - No Restaurant).....	.25
15.	Institutions	(Per Resident).....	.25
16.	Laundries	(Self Service - Per Machine).....	1.0
17.	Mobile Homes	1.0
18.	Motels	(Per Unit - No Restaurant).....	.25
19.	Nursing Homes		
	(a)	Per Bed (No Laundry).....	.25
	(b)	Per Bed (With Laundry).....	.375
20.	Offices	(Per Person - No Restaurant).....	.0625
21.	Picnic Parks	(Average Daily Attendance) (Per Person).....	.025
22.	Residences	(Single Family).....	1.0
23.	Rest Homes		
	(a)	Per Bed (No Laundry).....	.25
	(b)	Per Bed (With Laundry).....	.375
24.	Schools		
	(a)	Per Person (No Showers, Gym, Cafeteria)	.025
	(b)	Per Person With Cafeteria (No Gym, Shower).....	.0375
	(c)	Per Person With Cafeteria, Gym & Shower.	.05
25.	Service Stations		
	(a)	Each Car Served (Per Day).....	.025
	(b)	Each Car Washed (Per Day).....	.1875
	(c)	First Bay.....	2.5
	(d)	Each Additional Bay.....	1.25
26.	Shopping Centers	(Per 1,000 sq. ft. Space- No Restaurants).....	.5
27.	Stadiums	(Per Seat - No Restaurants).....	.005
28.	Swimming Pools	(Per Person With Sanitary Facilities and Showers).....	.025
29.	Theatres		
	(a)	Drive in (Per Stall).....	.0125
	(b)	Indoor (Per Seat).....	.0125